

Message Text

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ACTION EB-04

INFO OCT-01 SS-04 ISO-00 EUR-03 NSC-04 NSCE-00 INR-01

FRB-01 TRSE-00 SSO-00 INRE-00 CIAE-00 /018 W

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O R 141544Z AUG 75

FM AMEMBASSY ROME

TO SECSTATE WASHDC IMMEDIATE 2580

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

C O N F I D E N T I A L ROME 11708

LIMDIS GREENBACK

PASS TREASURY AND FRB

E.O. 11652: GDS

TAGS: EFIN, IT, IMF

SUBJECT: EC POSITION ON INTERNATIONAL MONETARY REFORM

REF: ROME 11625

1. SUMMARY. ITALIAN TREASURY MINISTRY DIRECTOR GENERAL
PALUMBO DISCUSSED PROPECTS FOR MONETARY REFROM WITH
TREASATT AUGUST 13. HE HOPED THAT AT LEAST TWO-PART REFORM
PACKAGE (GOLD AND IMF QUOTAS) COULD BE AGREED TO AT FUND/
BANK MEETING AND WONDERED ABOUT POSSIBILITY EVEN OF AGREEMENT
ON EXCHANGE RATE REGIME. HE WAS SOMEWHAT CRITICAL OF U.S.

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POSITION ON PROPOSED MONETARY SUMMIT. END SUMMARY.

2. DIRECTOR GENERAL PALUMBO DISCUSSED PROSPECT FOR MONETARY REFORM IN ANTICIPATION OF AUGUST 24 MEETING OF EC MINISTERS OF FINANCE AND SEPTEMBER 1-5 MEETING OF IMF. HE HOPED THAT IT WOULD BE POSSIBLE, AT LEAST, TO REACH AGREEMENT AT IMF MEETING ON TWO-PART PACKAGE INCLUDING GOLD (BOTH GOLD SETTLEMENTS AMONG CENTRAL BANKS AND DISPOSITION OF IMF GOLD) AS WELL AS ON IMF QUOTA INCREASE AND QUOTA RE-ALLOCATION. ON LAST POINT, PALUMBO HOPED THAT US COULD ACCEPT SOME REDUCTION IN ITS QUOTA SINCE GRADUAL INCREASE IN MEMBERSHIP OF FUND WOULD ERODE US VETO POWER IN ANY CASE. ON OTHER HAND, IF AGREEMENT WERE REACHED TO RAISED REQUIRED VOTE ON IMPORTANT ISSUES FROM 80 TO 85 PERCENT, US COULD PROLONG ITS VETO POWER. FURTHERMORE, IT MIGHT BE EASIER FOR US TO PROTECT THIS RIGHT NOW THAN TO WAIT UNTIL VETO POWER WERE IN JEOPARDY AND THEN BE FORCED TO SEEK SOLUTION UNDER PRESSURE.

3. AS TO QUESTION OF FUTURE FOREIGN EXCHANGE REGIME, PALUMBO REPEATED REPORT CONTAINED REFTEL THAT ONLY FRENCH OF EC COUNTRIES WERE NOT YET PREPARED TO ACCEPT "FORMULA 2" COMPROMISE. HE WONDERED IF DEMONSTRATION TO GOF OF ITS ISOLATION, NOT ONLY FROM US BUT ALSO FROM ALL OF ITS EC PARTNERS, MIGHT BE SUFFICIENT TO FORCE FRENCH ACQUIESCENCE IN THIS COMPROMISE. PALUMBO ARGUED THAT, IF MONETARY SUMMIT WERE HELD, FRENCH WOULD IN ANY CASE PROBABLY BE FORCED TO ACCEPT THIS COMPROMISE SO AS TO AVOID APPEARANCE OF FAILURE OF CHIEFS OF STATE TO MAKE PROGRESS ON MONETARY REFORM. PERHAPS IT WOULD BE BETTER TO TRY TO PERSUADE FRENCH TO AGREE TO THIS COMPROMISE NOW SO THAT THEY WOULD NOT HAVE TO CONCEDE THIS POINT DURING WELL-PUBLICIZED SUMMIT MEETING.

4. PALUMBO ASSUMED THAT MONETARY SUMMIT WOULD BE HELD BUT WAS SOMEWHAT CRITICAL OF "EQUIVOCAL" US ATTITUDE TOWARD SUMMIT DURING RECENT CHIEFS OF STATE MEETINGS IN BONN AND HELSINKI. PALUMBO REGRETTEED THAT POSSIBILITY OF SUMMIT MEETING IN THE FALL SEEMED TO BE DELAYING ANY DECISIONS WHICH MIGHT LEAD TO QUICKER PROGRESS ON INTERNATIONAL MONETARY REFORM ISSUES. VOLPE

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: GOLD, MONETARY AGREEMENTS, FOREIGN EXCHANGE RATES
Control Number: n/a
Copy: SINGLE
Draft Date: 14 AUG 1975
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975ROME11708
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750281-0386
From: ROME
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750852/aaaabtvc.tel
Line Count: 98
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: 75 ROME 11625
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 21 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21 APR 2003 by CunninFX>; APPROVED <22 APR 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EC POSITION ON INTERNATIONAL MONETARY REFORM
TAGS: EFIN, IT, IMF, (PALUMBO)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006